

FDIC State Profile

Fall 2005

North Carolina

North Carolina's economic recovery continues.

- Employment growth in North Carolina moderated slightly through mid-year 2005, in part, as manufacturing remained a drag on the economy (see Chart 1). In second quarter 2005, employment was up 1.4 percent from a year earlier, just under the national average. Despite recent growth, employment remains below pre-recession levels, while the state's population has increased by more than 500,000 since 2001 (see Chart 2).
- Economic growth varied significantly across North Carolina in second quarter 2005. The state's larger metropolitan areas—**Charlotte, Raleigh, Winston-Salem, and Wilmington**—all continued to see robust year-over-year gains. While growth in other areas was less sanguine, only **Rocky Mount** suffered year-ago declines in employment.
- Recent hurricanes likely will have indirect implications leading to higher energy costs, supply and distribution disruptions, and the temporary or permanent absorption of residents dislocated by the storm.

Growth has been supported by gains in residential real estate.

- Despite accounting for less than 5 percent of total employment, homebuilding has played an outsized role in North Carolina's economic recovery. Between the end of 2001 and 2004, residential construction-related employment directly accounted for nearly one-third of the state's total net gain of 35,220 in private employment.¹ Indirectly, the industry's importance has been further amplified by the ripple effect it has caused in other sectors of the economy.
- Homebuilding in North Carolina continued at a robust pace through the first half of 2005, with permit issuance up more than 10 percent from a year earlier. Although home price appreciation continued to rise as well, it was at a rate less than half the national average. Nonetheless,

Chart 1: North Carolina Employment Growth Has Slowed

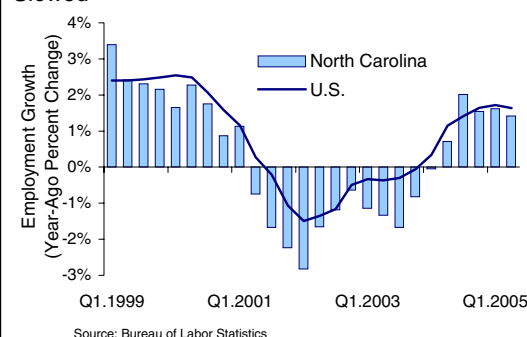


Chart 2: Though Rising, Employment in North Carolina Remains Below Pre-Recession Levels

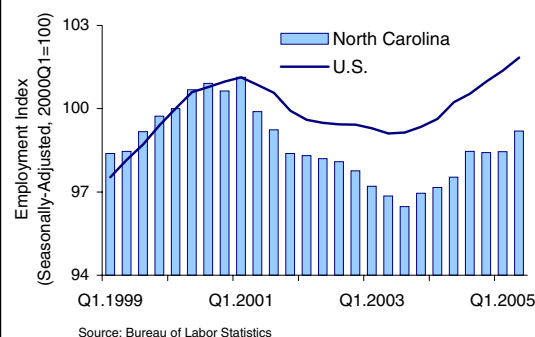
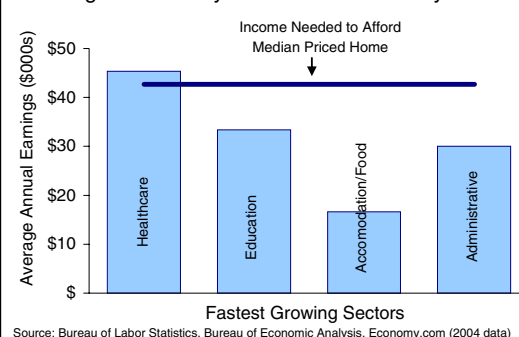


Chart 3: Low Incomes in North Carolina's Fastest Growing Sectors May Constrain Affordability



¹Residential construction-related employment includes residential construction and specialty contractors; mortgage lenders and brokers; and residential real estate agents, property managers, and appraisers.

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affordability issues may persist as average earnings in some of the fastest growing sectors of the state's economy were below the income level needed to purchase a median priced home on conventional terms (see Chart 3).

- According to the Office of Federal Housing Enterprise Oversight, home prices appreciated 5.9 percent for the 12 months ending June 30, 2005. Even modest appreciation may have disrupted the traditional relationship between home prices and apartment rents in Charlotte and Raleigh. Since 2001, rents have not only failed to keep pace with home price appreciation, but have declined (see Chart 4). Subsequently, it may become more difficult for residential real estate investors to charge rents that are high enough to cover monthly mortgage payments.

Small business performance measures vary.

- The net number of small businesses in North Carolina grew 3 percent in 2004.² The booming residential real estate market is influencing the growth of some small businesses. For example, landscaping and lawn service firms in the state, which have an average of seven employees, increased jobs by 2.3 percent in 2004, much higher than the 1.5 percent increase in overall private payroll jobs.
- Overall business lending at community banks in North Carolina fell during the past year after significant growth during the previous four years.³ Moreover, small business loans declined by 14.3 percent from a year ago, which contrasts sharply with the 3.7 percent national growth rate for all commercial banks. The share of small business loans as a percentage of all business loans has trended downward during this decade (see Chart 5).

Community banks continue their solid performance.

- Overall, banking conditions at North Carolina community banks were solid. Profitability was sound as return on assets gained 8 basis points over the 12-month period to 0.96 percent. Despite an increase in funding costs, net interest margins improved because of strong loan growth. After relatively flat performance the past few years, margins rose to 3.98 percent in second quarter 2005, up from 3.77 percent two years prior.

A shift in new deposit funding may lead to higher costs.

- North Carolina community banks may experience higher funding costs as the mix of new deposits is shifting to higher cost time deposits (see Chart 6). Depositors are

moving into higher yielding products as the differential between holding money in lower yielding, but more liquid, transaction or money market deposit accounts has widened with the recent increase in short-term interest rates. The change in preference by depositors has contributed to the rise in the cost of deposits to 2.24 percent for the 12 months ending June 30, 2005, from 1.80 percent a year ago.

Chart 4: Raleigh Apartment Rents Have Not Kept Pace with Home Price Appreciation

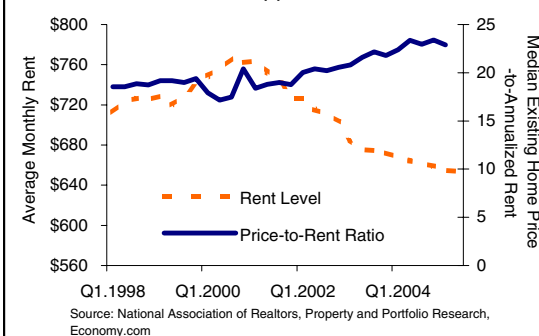


Chart 5: The Share of Small Business Loans Has Fallen at North Carolina Community Banks

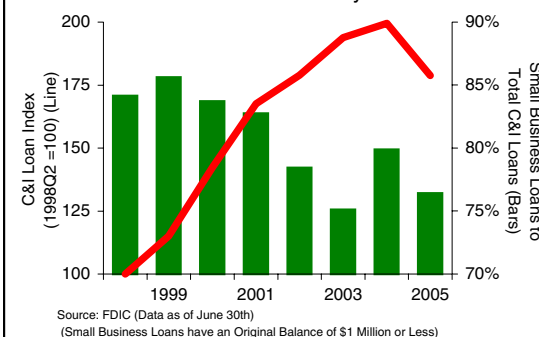
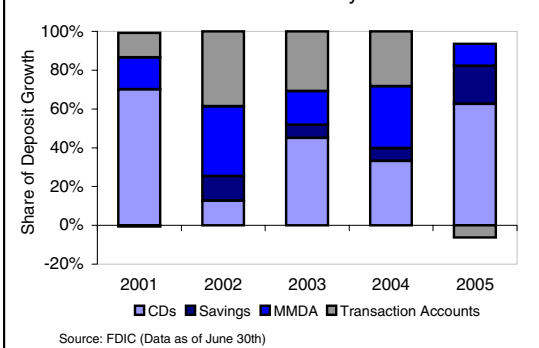


Chart 6: New Deposit Funding Mix May Lead to Higher Costs at North Carolina Community Banks



²"Small Business Profile: North Carolina," U.S. Small Business Administration, Office of Advocacy, 2004 and 2005.

³Community banks are insured commercial banks with assets of \$1 billion or less.

North Carolina at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q2-05	Q1-05	Q2-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.4%	1.6%	0.7%	1.1%	-1.2%
Manufacturing (15%)	-0.4%	-0.2%	-4.7%	-3.3%	-6.9%
Other (non-manufacturing) Goods-Producing (6%)	3.4%	4.6%	1.9%	2.2%	-3.5%
Private Service-Producing (62%)	1.8%	1.9%	1.9%	2.0%	0.2%
Government (17%)	1.1%	1.3%	1.2%	1.5%	0.0%
Unemployment Rate (% of labor force)	5.2	5.2	5.6	5.5	6.5

Other Indicators	Q2-05	Q1-05	Q2-04	2004	2003
Personal Income	7.4%	7.4%	7.8%	6.7%	2.6%
Single-Family Home Permits	9.9%	5.2%	15.5%	14.5%	-0.8%
Multifamily Building Permits	-0.4%	-27.9%	42.9%	32.5%	-22.1%
Existing Home Sales	8.9%	13.6%	23.4%	23.2%	10.0%
Home Price Index	5.9%	6.3%	4.0%	4.5%	3.4%
Bankruptcy Filings per 1000 people (quarterly annualized level)	4.59	4.43	4.31	4.27	4.92

BANKING TRENDS

General Information	Q2-05	Q1-05	Q2-04	2004	2003
Institutions (#)	108	108	106	108	104
Total Assets (in millions)	1,654,698	1,435,749	1,217,862	1,302,253	1,101,834
New Institutions (# < 3 years)	11	11	9	10	7
Subchapter S Institutions	2	2	2	2	2

Asset Quality	Q2-05	Q1-05	Q2-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.07	1.15	1.24	1.23	1.58
ALLL/Total Loans (median %)	1.25	1.28	1.24	1.27	1.28
ALLL/Noncurrent Loans (median multiple)	2.45	2.23	2.08	2.11	1.92
Net Loan Losses / Total Loans (median %)	0.04	0.03	0.08	0.11	0.10

Capital / Earnings	Q2-05	Q1-05	Q2-04	2004	2003
Tier 1 Leverage (median %)	9.66	9.85	9.80	10.27	9.46
Return on Assets (median %)	0.88	0.83	0.72	0.71	0.76
Pretax Return on Assets (median %)	1.26	1.19	1.08	1.05	1.10
Net Interest Margin (median %)	3.85	3.82	3.66	3.67	3.65
Yield on Earning Assets (median %)	6.15	5.86	5.30	5.41	5.66
Cost of Funding Earning Assets (median %)	2.15	1.93	1.66	1.72	1.96
Provisions to Avg. Assets (median %)	0.20	0.17	0.19	0.19	0.20
Noninterest Income to Avg. Assets (median %)	0.67	0.63	0.75	0.69	0.88
Overhead to Avg. Assets (median %)	2.82	2.87	2.79	2.84	2.96

Liquidity / Sensitivity	Q2-05	Q1-05	Q2-04	2004	2003
Loans to Assets (median %)	74.9	75.4	74.1	75.9	73.0
Noncore Funding to Assets (median %)	27.5	26.9	26.1	26.1	24.0
Long-term Assets to Assets (median %, call filers)	11.8	11.6	14.1	12.4	13.7
Brokered Deposits (number of institutions)	57	52	48	52	39
Brokered Deposits to Assets (median % for those above)	5.4	5.0	4.4	5.6	3.9

Loan Concentrations (median % of Tier 1 Capital)	Q2-05	Q1-05	Q2-04	2004	2003
Commercial and Industrial	88.8	88.7	90.4	84.7	97.8
Commercial Real Estate	329.7	326.3	307.2	315.5	304.4
<i>Construction & Development</i>	108.7	104.1	86.4	97.5	79.1
<i>Multifamily Residential Real Estate</i>	10.9	10.5	9.3	10.1	10.3
<i>Nonresidential Real Estate</i>	171.4	163.3	163.5	152.8	167.2
Residential Real Estate	252.5	249.0	257.9	256.6	273.0
Consumer	19.7	20.1	26.7	21.6	32.4
Agriculture	2.1	2.0	2.3	2.2	3.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
Charlotte-Gastonia-Concord, NC-SC	38	78,456	< \$250 million	58 (53.7%)
Virginia Beach-Norfolk-Newport News, VA-NC	32	14,965	\$250 million to \$1 billion	38 (35.2%)
Raleigh-Cary, NC	24	11,730	\$1 billion to \$10 billion	7 (6.5%)
Winston-Salem, NC	17	10,901	> \$10 billion	5 (4.6%)
Greensboro-High Point, NC	29	9,129		